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Coffee

Annual Report

2007

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Report Highlights: Coffee production for 2006/2007 is expected to increase almost 38 percent over the previous crop year due to more favorable growing conditions and better yields. Exports for 2006/2007 are also projected to reach record levels. Farmers continue to expand their Robusta production area, spurred on by current high export prices.

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SECTION I: SITUATION AND OUTLOOK

Vietnam's coffee production for 2006/2007 is projected to reach 1.116 million metric tons or 18.6 million 60-kg-bags as a result of more favorable growing conditions and higher yields than the previous crop year. The figures indicate record outputs and a 38 percent increase over the last crop year. Production for CY 2007/2008 is forecast to decline by 5 percent to around 17.67 million 60 kg bags due to expected dryer conditions.

The government continues to encourage farmers in marginal growing areas to replace coffee with crops better suited to the soil. However, in the face of current high prices, farmers continue to expand their Robusta cultivation, and where possible, also Arabica.

Coffee exports for 2006/2007 are projected to increase significantly over the previous market year. Preliminary data for the first six months of the market year already show record volumes and values. Total exports are expected to reach 17.6 million 60 kg bags, which is a 36 percent increase over the previous market year. The forecast for 2007/2008 suggests a decline in exports of about 5% owing to expected lower production.

SECTION II: STATISTICAL TABLES

Table 1: Vietnam's coffee Production, Supply and Demand (PSD table)

Country Vietnam
Commodity Coffee, Green

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Planted	495	495	495	500	500	515	0	0	517
Area Harvested	485	485	485	490	490	495	0	0	495
Bearing Trees	605	605	605	615	615	615	0	0	619
Non-Bearing Trees	12	12	12	35	35	36	0	0	35
Total Tree Population	617	617	617	650	650	651	0	0	654
Beginning Stocks	190	190	190	67	67	67	400	400	250
Arabica Production	300	300	300	417	417	417	0	0	396
Robusta Production	13200	13200	13200	16083	16083	18183	0	0	17274
Other Production	0	0	0	0	0	0	0	0	0
Total Production	13500	13500	13500	16500	16500	18600	0	0	17670
Bean Imports	0	0	15	0	0	55	0	0	17
Roast & Ground Imports	24	24	1	25	25	1	0	0	26
Soluble Imports	0	0	23	0	0	24	0	0	0
Total Imports	24	24	39	25	25	80	0	0	43
Total Supply	13714	13714	13729	16592	16592	18747	400	400	17963
Bean Exports	12933	12933	12933	15284	15284	17596	0	0	16718
Roast-Ground Exp.	0	0	0	0	0	1	0	0	1
Soluble Exports	42	42	42	50	50	42	0	0	42
Total Exports	12975	12975	12975	15334	15334	17639	0	0	16761
Roast, Ground Dom. Consumption	634	634	649	808	808	808	0	0	818
Soluble Dom. Cons.	38	38	38	50	50	50	0	0	51
Domestic Use	672	672	687	858	858	858	0	0	869
Ending Stocks	67	67	67	400	400	250	0	0	333
Total Distribution	13714	13714	13729	16592	16592	18747	0	0	17963
Exportable Production	12828	12828	12813	15642	15642	17742	0	0	16801

Source: FAS

Table 2: Vietnam's export trade matrix

Country	Vietnam		
Commodity	Coffee, Green		
Time Period	Oct.-Mar	Units:	MT
Exports for:	2005		2006
U.S.	66801	U.S.	99363
Others		Others	
Germany	63074	Germany	115072
Spain	39736	Italy	53672
Italy	28844	Spain	44092
South Korea	16099	Belgium	24524
United Kingdom	13298	Indonesia	24348
Poland	13125	United Kingdom	20076
Ecuador	11434	South Korea	19450
Japan	10447	France	15677
Belgium	10318	Poland	15549
Mexico	10175	Netherlands	15416
Total Others	216550		347876
Others not Listed	87649		137761
Grand Total	371000		585000

Source: Vicofa, MARD

Table 3: Vietnam's import trade matrix

Country	Vietnam		
Commodity	Coffee, Green		
Time Period	Jan-Dec	Units:	MT
Imports for:	2005		2006
U.S.		U.S.	
Others		Others	
Laos	104	China	120
Peru	38	Ethiopia	18
		South Korea	63
		Laos	2690
		Nicaragua	38
		Portugal	37
		Malaysia	3
Total Others	142		2969
Others not Listed			
Grand Total	142		2969

Source: Trade, General Customs Office

*SECTION III: MARKET STATUS**PRODUCTION***Vietnam's 2006/07 Coffee Crop**

Post revises Vietnam's 2006/2007 coffee production estimate to 1.116 million metric tons (MMT) or 18.6 million 60-kg bags of green beans. This represents an increase in production of 5.1 million bags that can be attributed to more favorable weather, higher yields, and later cultivations coming to maturity. (See graph 1)

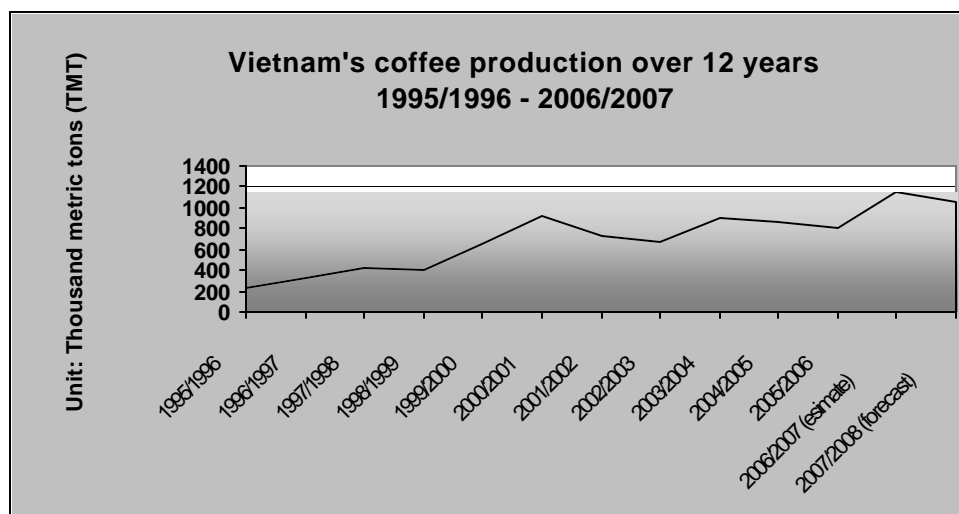
Despite government efforts encouraging coffee growers in marginal land areas to replace their Robusta coffee with crops better suited to the soil, farmers continue to expand their Robusta cultivation, spurred on by current high export prices. Farmers also work to expand their Arabica area and have been investing more in inputs such as fertilizer and irrigation systems in order to enhance yields. Arabica coffee currently accounts for about 2.2% of Vietnam's total coffee production. Coffee yields in 2006/2007 are expected to be more than 11 percent greater than earlier estimates. (See table 4)

Reports are that the total coffee production area should increase by about 4 percent in 2006/2007. This would lead to an overall increase of 5.5 percent in the total tree population due to more of the higher-density Arabica plants and a larger planting area for Robusta.

Vietnam's 2007/08 Coffee Crop

Expectations are that Vietnam's 2007/2008 coffee production will be about 5 percent less than the previous crop because of a possible summer drought or dry conditions in the major coffee growing areas. No official forecast has yet been made for 2007/2008 production.

Vicofa notes that an increasing number of coffee trees are getting older, beyond the 20-year mark. Coffee growers have been replacing old trees at a rate of around 200 to 250 new trees for every hectare of old coffee trees. The current level of old trees could have a slight impact on production, so Post forecasts that coffee yields for the 2007/2008 crop will be down by about 5 percent.

Graph 1: Vietnam's coffee production over the last 12 market years

Source: FAS/USDA

Table 4: Vietnam Coffee Production in Metric Tons, by Marketing Year (Oct-Sept)

	2005/06		2006/2007		2007/2008
Marketing year begins	10/2005		10/2006		10/2007
	Old	Revised	Old	Revised	Forecast
Sown Area (thousand ha)	495	495	500	515	517
Area Harvested (thousand ha)	485	485	490	495	495
Beginning Stock (thousand tons)	11	11.4	4	4	15
Production (green bean, thousand tons)	810	810	990	1116	1060
Average coffee yield (ton/ha)	1.67	1.67	2.02	2.25	2.14

Source: Vicofa, Trade, FAS estimate

CONSUMPTION

Post maintains its previous estimate of 858 thousand 60-kg bags or 51.5 thousand metric tons (tmt) green equivalent for Vietnam's 2006/2007 domestic consumption. This projection takes into account active domestic marketing campaigns by major processors and represents a growth of almost 25% over the previous crop year. Nevertheless, given the much steeper growth in production (37.8%), local consumption still only accounts for about 4.5 percent of total production.

Coffee consumption, both ground and soluble products, has been gaining ground in the domestic market in recent years, particularly in larger urban areas. Highlands and Trung Nguyen are two major chains, now quite visible throughout Hanoi and Ho Chi Minh City. Major producers such as Trung Nguyen, Nestle, Vinacafe Bien Hoa and Tin Nghia Company actively campaign to promote their ground and instant coffee products.

Post estimates Vietnam's per capita coffee consumption at around 0.5-0.6 kg/year, which is much less than other coffee producing countries; Brazil's per capita consumption is 4.15-4.22 kg/year. Vietnam's Ministry of Agriculture and Rural Development (MARD) estimates the per capita coffee consumption rate in the two largest urban areas at 0.75 kg/year for Hanoi and 1.6 kg/year for Ho Chi Minh City.

STOCKS

Official data for coffee stocks are not available in Vietnam. Post keeps unchanged the carry-in stocks for 2006/2007. Exports should continue to increase since coffee export prices remain high. Post therefore revises down ending stocks for 2006/2007 by 38%. Even so, ending stocks for 2006/2007 are markedly higher than the previous market year due to significantly higher production levels. Growers, processors and traders are holding stocks.

TRADE

Vietnam's coffee exports for MY 2006/07 are estimated at 17.6 million bags, an increase of 4.6 million bags or 36 percent over MY 2005/2006. Thus far, export figures for the first half of the current market year indicate record volumes and values. The Vietnam Coffee and Cocoa Association (VICOFA) and the Vietnam Chamber of Commerce and Industry (VCCI) report that in the first six months of MY 2006/2007, Vietnam exported 585 tmt or 9.75 million bags of coffee; 58 percent more than the same period the year before. Export value was also a record at \$825 million, reflecting an increase in value of 129 percent over the same period last year. (See table 5)

Table 5: Vietnam's green coffee exports over 5 marketing years

Month	2002/2003		2003/2004		2004/2005		2005/2006		2006/2007		% Change of MY 05/06 & 06/07	
	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol. (tmt)	Value (US\$ mil.)	Vol.	Value
Oct.	64	32	46	30	65	40	57	46	52	64	-8.7	39
Nov.	54	30	55	35	55	34	55	46	64	87	16	89
Dec.	64	38	85	53	87	56	63	57	106	149	6.8	161
Jan.	67	44	69	44	82	54	64	66	138	199	116	202
Feb.	54	37	87	57	64	43	52	56	99	144	9	157
Mar.	62	40	83	54	82	60	80	89	126	182	58	105
Sub-total	365	221	425	273	435	287	371	360	585	825	58	129
April	54	34	83	54	82	63	73	82				
May	56	37	79	52	71	59	81	93				
June	58	36	119	79	71	59	75	86				
July	56	35	56	37	65	54	53	61				
Aug.	54	34	51	33	58	48	77	90				
Sept.	48	32	56	35	55	45	46	56				
Grand Total	691	429	869	563	837	615	776	828				

Source: Vicofo, Vietnam Chamber of Commerce and Industry (VCCI)

Vietnam currently exports coffee to about 70 countries. Table 6 offers a view of the top ten markets for Vietnamese green coffee exports over the first six months of MY 2006/2007. Germany is consistently the largest market for Vietnamese coffee, followed closely by the United States.

**Table 6: Top ten markets for Vietnamese green coffee
in the first six months of MY 2006/2007**

Rank	Import Countries	Volume	Market share (%)
1	Germany	115,072	19.7
2	United States	99,363	16.9
3	Italy	53,672	9.2
4	Spain	44,092	7.5
5	Belgium	24,524	4.19
6	Indonesia	24,348	4.16
7	United Kingdom	20,076	3.4
8	South Korea	19,450	3.3
9	France	15,677	2.68
10	Poland	15,549	2.66

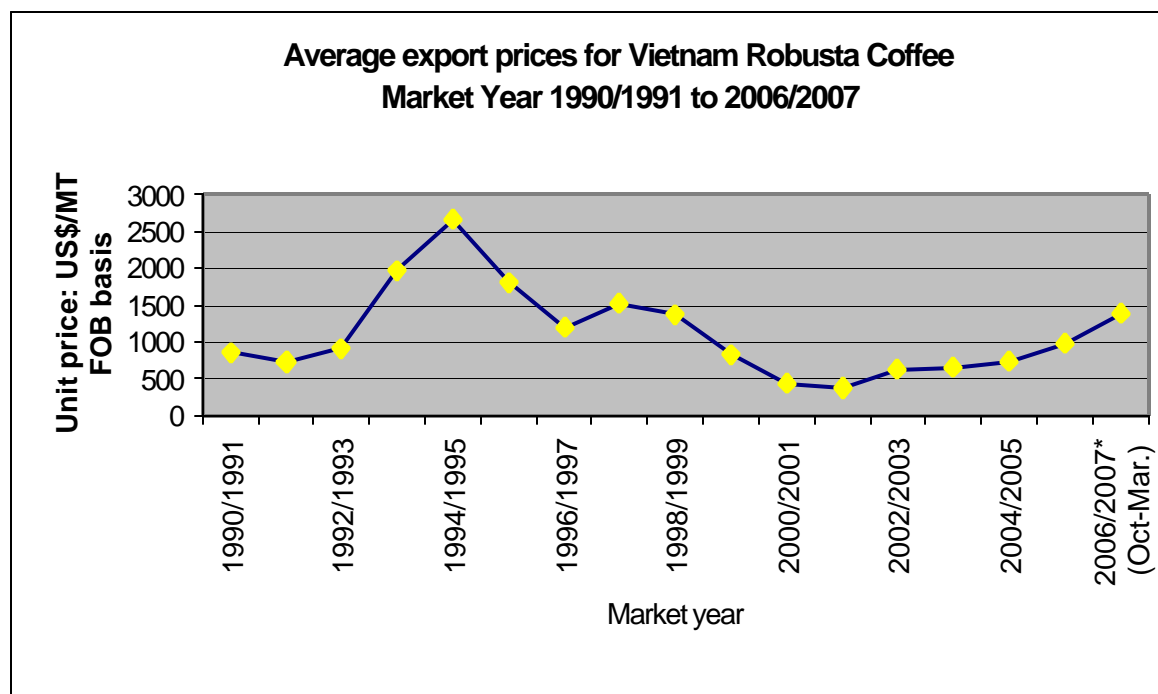
Source: MARD

PRICES

Export

The average export price for Vietnam's Robusta coffee during the first six months of MY 2006/2007 was \$1,389/MT (FOB Ho Chi Minh City), 45 percent higher than the same period last market year. Currently, Vietnam's Robusta grade 1 coffee has an export quote price of \$1,475/MT (FOB Ho Chi Minh City) while Vietnam's Arabica coffee is quoted at \$2,250/MT. Local traders forecast that export prices should remain at current high levels as demand continues to outpace supply.

Graph 2: Vietnam's average coffee export prices over 16 marketing years



Source: Vicofa, trade

Table 7: Vietnam's green coffee average export prices in 2006 and 2007

Month	2006	2007	% Change
Jan	1027.00	1441.00	40%
Feb	1061.00	1461.00	38%
Mar	1118.00	1437.00	29%
Apr	1117.80		
May	1142.80		
Jun	1151.50		
Jul	1161.20		
Aug	1171.30		
Sep	1205.70		
Oct	1231.00		
Nov	1357.00		
Dec	1405.00		

Source: Vicofa, Trade

Domestic

Vietnam's domestic coffee prices are currently about 35 percent higher than a year ago. Prices in Dak Lak, Vietnam's largest coffee-producing province, are currently VND 22,900-23,000 (U.S. \$1.42)/kg for common Robusta coffee beans. Prices have held at this level since the start of the market year in October 2006. Local traders hold that domestic coffee prices should remain at the current level in the second half of this crop year given that farmers have little left over stocks and export prices are expected to remain high. Table 8 illustrates Robusta coffee prices in Dak Lak province for the first six months of 2006/2007.

Table 8: Robusta coffee bean domestic prices in Dak Lak province for the first six months of 2006/2007 market year

Month	Coffee grades		
	General Robusta bean VND/kg	Robusta coffee grade R1 VND/kg	Robusta coffee grade R2 (5%) VND/kg
Oct. 06	21,600-22,600	22,700-23,700	21,900-23,400
Nov. 06	20,500-22,800	21,900-23,900	21,100-23,100
Dec. 06	20,500-21,700	21,900-23,800	21,000-22,900
Jan. 07	21,000-22,000	22,200-23,000	21,600-22,700
Feb. 07	21,000-22,200	22,200-23,000	21,600-22,700
Mar. 07	21,200-22,400	22,300-23,600	21,800-22,800

Source: Vicofa, MOT, MARD, FAS (US\$1=VND 16,034 as of April 16, 2007)

POLICY

The government continues to encourage coffee farmers on marginal land to shift from coffee to crops better suited to the soil. A long-term policy goal for Vietnam's coffee sector is to improve quality so that Vietnam's coffee can better compete on the world market. To this end, Vietnam has been working on establishing its own coffee certification system, TCVN 4193:2005. Vietnam's coffee industry has also been thinking of applying for a protected geographical indication (PGI); consideration is currently being given to "Buon Ma Thuot coffee," named after a city in Dak Lak province, the heart of Vietnam's coffee growing region.

The Ministry of Agriculture and Rural Development (MARD) decision No. 3988/QĐ-BNN-TT, dated December 26, 2006, calls for Vietnam's coffee sector to develop plans for intensive coffee farming. MARD has proposed that the government provide 100 percent funding for a new seedling investment project geared to renewing old coffee fields. The government would further provide 50 percent interest rate subsidy to farming households with a plan for intensive coffee farming in very difficult communes. Additionally, budget would be allocated to develop infrastructure in areas designated for intensive coffee farming.